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General market background:

Hungary, a country with a population of 10 million and a currently transforming economy is a relatively small, but strongly developing market in Central Europe. GDP growth is around four percent, which is among the highest figures of the transitional economies. Until the mid-80's the Hungarian packaging equipment market was mainly supplied by domestic manufacturers and was very underdeveloped. The real opening and growth of a competitive market began in 1989, when most of the formerly state-owned firms were privatized and broken up into smaller enterprises and started distributing western packaging products. Although average per capita paper consumption has grown to 80 kg per year since then, it is still far from the European Union's 260 kg figure. This leaves a lot of room for overall growth in the packaging sector.

Partly as a result of the ongoing economic restructuring process, the segmentation of companies by size has shown unique phenomena. While one can find a relatively large number of multinational giants (most Fortune 500 companies) present in nearly every industry sector, there are surprisingly few medium size enterprises. Small companies are numerous, but still financially weak and, in many cases, fighting for survival. The upper segment of the company pyramid looks for very high quality and high-productivity packaging machinery, while many small industrial customers fall into the more price-conscious segment. The number of middle-sized businesses is expected to increase in the mid-term, primarily due to a range of government subsidies.

Current market trends:

Most manufacturing companies that bought packaging machinery about ten years ago when markets first opened up in Hungary are now looking to replace their old equipment

which is at the end of its life-cycle. There are two traceable market trends at the moment. One is that big users, such as Pepsi Cola, General Electric, local wine companies and breweries are currently replacing their large-scale packaging machinery. On the other hand, many small and medium size companies (SMEs) have grown strong enough to invest in automated packaging machinery. As the Hungarian food processing sector has successfully reoriented most of its exports to EU markets in recent years, and as more and more retail sales are channeled through shopping malls and chain stores locally, quality packaging has become a must for producers and distributors. This trend is further strengthened by the availability of special economic development grants from the Hungarian Government to local SMEs to support technical upgrades instead of more extensive use of labor, the cost of which has increased significantly in the past few years, but is still relatively low.

The Romanian, Ukrainian and Russian markets may also grow significantly in the near future, and will far outweigh the current size of the \$200 million per year Hungarian packaging machinery market. Because of its relatively developed business climate and advantageous geographical situation, Hungary can become a good manufacturing and distribution base for supplying those new market needs in the future; therefore many local companies are looking for strategic partnerships with major manufacturers.

Competitive Situation:

Since all the major European packaging equipment manufacturers are present and well-established in Hungary, pricing is especially important when introducing a new American product line. Hungarian customers are traditionally European-oriented because of historical reasons and are not familiar with US products in general. The common understanding is that American machinery is "good quality for a high price".

Potential US exporters will have to take strong Italian, French and German competition into consideration, when making support, service and pricing decisions. Maintenance, spare parts supplies and support services are of key importance when introducing new systems to the market. For example, shrink-wrapping machinery is available from Italian manufacturers roughly 30-35 percent below standard German prices. Since Hungary is an associate member of and has a free trade agreement with the European Union, most European industrial products get into Hungary duty free, while machinery of US origin is subject to a 10-10.5 percent import duty.

Local Distribution Channels:

Many Hungarian trading companies engage in several activities in the packaging market, providing wholesale, retail and maintenance services at the same time. Bigger firms have showrooms and deal exclusively with wholesale trade and stocking distribution. Agents are also available, and they will typically work for a commission of 10 percent. Based on inquiries with several firms, we feel that in spite of strong price competition, there is a market for advanced U.S. packaging equipment in Hungary.

Trade Show/Association Information:

The annual trade event of the packaging industry showcasing the firms and products US exporters may be interested in is the following:

BUDATRANSPACK

International Trade Exhibition of packaging Technology
October 26-29, 2000, Budapest

The exhibition usually hosts special conference sessions on the theme of packaging. The Hungarian Packaging Award is handed out at this event. The number of exhibitors in 1999 was 182, out of which 57 foreign companies were represented. The total exhibition area was close to 60,000 square feet.

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